

## Message Text

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PA-01 PRS-01 SS-15 USIA-06 NIC-01 /084 W

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R 061739Z MAR 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 8513

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AMEMBASSY PARIS

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C O N F I D E N T I A L SECTION 01 OF 03 BONN 03805

DEPARTMENT PLEASE PASS TREASURY

E.O. 11652: GDS

TAGS: ECON, EFIN, EGEN, GW

SUBJECT: THE TRIALS AND TRIBULATIONS OF HANS APEL

REF: (A) BONN 2015, (B) BONN 2433

1. SUMMARY: FINANCE MINISTER HANS APEL IS HAVING HIS TROUBLES LATELY FOR A NUMBER OF REASONS. UNPRECEDENTED DEFICITS, A TAX REFORM FIASCO, ACTUAL AND PROBABLE SPD ELECTORAL SETBACKS, AND THE CONSEQUENT POSSIBLE SEARCH FOR A SCAPEGOAT ALL AUGUR UNFAVORABLY FOR APEL. BUT WE BELIEVE THAT DESPITE THE FACT THAT HE IS IN SOME HOT WATER, HE IS LIKELY TO REMAIN IN THE FINANCE MINISTRY AT LEAST UNTIL THE NATIONAL ELECTIONS IN 1976. END SUMMARY

2. REASONS WHY APEL IS UNDER FIRE.

A. THE MUCH-TOUTED TAX REFORM MEASURE OF THE  
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GOVERNMENT HAS BACKFIRED (SEE REFTTEL A) AND IS MOMEN-

TARILY HAVING SOME NEGATIVE EFFECT ON THE ELECTORATE SINCE MANY TAXPAYERS ARE, AT LEAST INITIALLY, HAVING LESS RATHER THAN MORE TAKE-HOME PAY AS A RESULT OF THE MULTIPLE CHANGES INVOLVED. IT IS WIDELY OPINED THAT APEL'S FAILURE TO ADEQUATELY FORESEE THIS DEVELOPMENT WAS A SERIOUS ERROR ON HIS PART. HE DID NOT REALLY DO ANYTHING ABOUT PUBLICIZING AND SELLING THE TAX REFORM IN A MEANINGFUL AND EDUCATIONAL WAY UNTIL IT WAS TOO LATE. EVEN AFTER THE UNFAVORABLE REACTION IN JANUARY WHEN THE REFORM WAS FIRST IMPLEMENTED HE DID NOT THOROUGHLY DO HIS HOME WORK ON THE INTRICACIES INVOLVED AND THIS BECAME QUITE APPARENT IN HIS PUBLIC APPEARANCES AND INTERVENTIONS. AS A RESULT HE HAS COME UNDER FIRE NOT ONLY FROM THE OPPOSITION AND TAXPAYERS BUT FROM WITHIN HIS OWN PARTY AS WELL.

B. APEL RECENTLY ENTERED INTO A PUBLIC FRAY WITH HIS OWN FINANCE MINISTRY TAX OFFICIALS. HE ACCUSED THEM OF NOT PROPERLY INFORMING HIM BEFOREHAND OF THE CONSEQUENCES OF THE TAX REFORM ISSUE. THE TAX OFFICIALS UNION IN TURN RESPONDED IN A VERY SHARP MANNER AND SUBSEQUENTLY APEL HAD TO BACK DOWN FROM HIS EARLIER HARSH ATTACKS. THIS UNSEEMLY EXCHANGE HAS DONE NOTHING TO HELP APEL'S IMAGE BUT RATHER HAS TENDED TO CONFIRM WHAT MANY HAVE LONG THOUGHT, I.E., THAT HE IS AN IMPULSIVE MAN WHO FREQUENTLY SPEAKS BEFORE THINKING OUT HIS POSITIONS VERY WELL.

C. DURING THE BUNDESTAG DEBATE ON THE GOVERNMENT'S ANNUAL ECONOMIC REPORT, FRANZ JOSEF STRAUSS LED THE OPPOSITION ATTACK, CLAIMING THAT THE ECONOMY WAS IN CHAOS (EVEN A "PIG STY") AS A RESULT OF THE GOVERNMENT'S POLICIES. IN THIS DEBATE APEL UNDERTOOK TO REBUT STRAUSS IN A MOST VOCIFEROUS IF NOT THE MOST EFFECTIVE MANNER. THIS TENDED TO HAVE THE EFFECT, RIGHTLY OR WRONGLY, OF FOCUSING CRITICISM FOR THE STATE OF ECONOMIC AFFAIRS ON APEL RATHER THAN ON ECONOMICS MINISTER FRIDERICH.

D. FOUR STATE ELECTIONS ARE COMING UP IN THE NEXT  
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COUPLE OF MONTHS AND A PRIME ISSUE IN ALL OF THEM WILL BE ECONOMIC CONDITIONS. NOTHING MORE CAN NOW BE DONE TO SUBSTANTIALLY IMPROVE THESE IN TIME TO HAVE A BENEFICIAL EFFECT AT THE POLLS. ELECTIONS SETBACKS FOR THE SPD/FDP COALITION PARTNERS SEEM MOST LIKELY. IT COULD BE THAT IF THE ELECTION RESULTS ARE EXCEPTIONALLY DISASTROUS, THERE WILL BE A SEARCHING OUT OF A SCAPEGOAT. ONE OF THE PRIME CANDIDATES WOULD BE APEL DUE TO HIS TAX REFORM AND

ECONOMIC POLICY ROLES AND GENERALLY VULNERABLE AND WEAKENED POSITION.

E. AS TAX REVENUE GROWTH HAS SLOWED AND GOVERNMENT OUTLAYS HAVE EXPANDED (SEE REFTTEL B), THERE HAS ARISEN THE PROBLEM OF A RAPIDLY RISING DEFICIT AND THE CONCOMITTANT UPWARD PRESSURE ON THE DEBT LIMIT. A

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LOGICAL METHOD OF HANDLING THIS FOR 1976, MANY PEOPLE SAY, IS TO INCREASE TAXES. APEL, HOWEVER, HAS REPEATEDLY SAID THAT THERE WILL BE NO TAX INCREASES THIS YEAR. WHILE HE HAS SAID NOTHING ABOUT NEXT YEAR, A NATIONAL ELECTION YEAR, ONE OF HIS UNDER SECRETARIES HAS PUBLICLY STATED THERE WOULD BE NO TAX RISE NEXT YEAR EITHER. THE AVOIDANCE OF A TAX INCREASE THIS YEAR MAY BE POSSIBLE DUE TO THE CONSTITUTIONAL PROVISIONS (ARTICLE 115) THAT PERMIT A BREACHING OF THE FEDERAL DEBT LIMIT IF THE

ECONOMIC EQUILIBRIUM IS DISTURBED, AS IS THE CASE THIS YEAR. NEXT YEAR, HOWEVER, THIS WILL PROBABLY NOT BE POSSIBLE. FURTHERMORE, THE SPD'ERS ARE MOVING QUITE GINGERLY IN THE UTILIZATION OF ARTICLE 115 DUE TO THEIR FEAR OF THE OPPOSITION'S TAKING THE WHOLE ISSUE TO COURT SHOULD THE DEBT LIMIT BE EXCEEDED FOR WHATEVER REASON. MANY SEE NO WAY OUT OF THE BOX IN 1976 OTHER THAN TO RAISE TAXES, WITH INTRODUCTION OF THE PROPOSED LEGISLATION BEFORE THE END OF THIS YEAR TO BECOME EFFECTIVE  
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NEXT YEAR. IN THE PROCESS THE GOVERNMENT AND ITS PRINCIPAL AGENT IN THIS CRUCIAL MATTER, APEL, WOULD HAVE TO SUFFER THE PUBLIC OPPROBRIUM THAT WOULD NATURALLY RESULT. THE SPD/FDP COALITION WOULD THEN HAVE EVEN GREATER CONCERN FOR THEIR ELECTORAL CHANCES IN THE FALL OF 1976. APEL, IT IS SPECULATED, WOULD BE FORCED TO RESIGN.

### 3. REASONS WHY APEL IS LIKELY TO SURVIVE.

A. ECONOMIC CONDITIONS ARE BAD ALL OVER, AND INTERNATIONAL COMPARISONS SHOW GERMANY TO BE MUCH BETTER OFF THAN MOST INDUSTRIALIZED COUNTRIES .

THE RECORD-SIZED DEFICIT IS NOT OF APEL'S MAKING. FURTHERMORE, THE TAX REFORM WAS MAINLY PRODUCED NOT DURING APEL'S REIGN AS FINANCE MINISTER BUT RATHER DURING THAT OF NOW-CHANCELLOR HELMUT SCHMIDT. APEL CAME ON THE SCENE AS FINANCE MINISTER IN MAY 1974, JUST SHORTLY BEFORE THE TAX REFORM PACKAGE WAS APPROVED BY THE LEGISLATURE AND AFTER ITS HAVING HAD SEVERAL RATHER COMPLICATING AMENDMENTS ADDED TO IT BY THE CDU/CSU BUNDESTAG CONTINGENT, AMONG OTHERS. THE APEL INPUT ON TAX REFORM WAS PRACTICALLY NIL AND THEREFORE THE BLAME FOR ITS CURRENT MALFUNCTIONING CANNOT RIGHTFULLY BE PLACED ON HIS SHOULDERS. WHILE HE CAN BE BLAMED FOR A CLUMSY IMPLEMENTATION, THE FLAK ON THIS ACCOUNT IS TENDING TO DIMINISH.

B. APEL HAS A LONG-STANDING FRIENDSHIP WITH FELLOW HAMBURGER HELMUT SCHMIDT (FOR WHOM HE IS TAKING THE PUBLIC RAP ON THE TAX REFORM ISSUE, AND THEREBY PERHAPS EARNING HIS GRATITUDE). THERE IS EVERY INDICATION THAT THE TWO SHARE THE SAME POLICY VIEWS AND HAVE A GOOD WORKING RELATIONSHIP. AND WHILE BOTH APEL AND SCHMIDT STAND SLIGHTLY TO THE MORE EXPANSIONARY SIDE OF THE MORE INFLATION-CONTROL ORIENTED FDP ECONOMICS MINISTER FRIDERICH'S, WHOSE POLICY VIEWS ARE NOT TOO DISSIMILAR TO THOSE OF BUNDESBANK PRESIDENT KARL KLASSEN, ALL FOUR ARE NOT THAT FAR APART FROM ONE ANOTHER ON THE BIG POLICY

ISSUES.

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C. AS NOTED EARLIER, ONE OF THE TRICKIEST PROBLEMS  
THAT WILL HAVE TO BE DEALT WITH IS THAT OF THE DEFICIT  
AND A POSSIBLE TAX INCREASE. ON THIS TOO APEL MAY COME  
OFF FAIRLY WELL SINCE THERE EXIST THE FOLLOWING POSSIBLE,

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NOT MUTUALLY EXCLUSIVE REMEDIAL SCENARIOS:

(1) IN THE FIRST INSTANCE, THE ECONOMIC PICTURE  
AND RESULTANT TAX REVENUES FOR 1976 ARE NOT THAT SURE

YET. A GOOD ECONOMIC RECOVERY, WHICH IS ENTIRELY POSSIBLE, COULD SAVE THE DAY AND POSTPONE THE NEED FOR A TAX INCREASE.

(2) ALSO, GOVERNMENT SPENDING CUTS WILL HAVE TO COME. WHILE THESE WILL BE UNPOPULAR WITH AFFECTED GROUPS, "FISCAL SOUNDNESS" IS GENERALLY VERY POPULAR WITH THE ELECTORATE AND APEL AS THE TOUGH EXPENDITURE CUTTER COULD EMERGE WITH AN ENHANCED REPUTATION FROM THIS EXERCISE.

(3) WHILE AN INCOME TAX INCREASE WOULD BE BEYOND THE PALE, GIVEN THE RECENT TAX REFORM FIASCO, AN INCREASE IN THE VALUE ADDED TAX RATE COULD BE CONTEM-  
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PLATED. A NEED FOR A CLOSER HARMONIZATION WITH THE 16 TARGETED RATE OF THE EEC COULD BE THE EXCUSE OFFERED. SOME SAY THIS ACTION WILL BE AND CAN BE POSTPONED UNTIL AFTER THE 1976 NATIONAL ELECTION.

(4) IT MIGHT ALSO BE POSSIBLE TO STRETCH THE DEBT LIMIT OF ARTICLE 115 BY LESS RESTRICTIVE INTERPRETATIONS AND IF CHALLENGED ON THIS BY THE OPPOSITION, ATTEMPT TO DELAY A CONSTITUTIONAL DECISION UNTIL AFTER THE ELECTION.

4. ON BALANCE, THE EMBASSY DOES NOT BELIEVE THAT APEL AT THIS POINT IS IN SUCH SERIOUS TROUBLE THAT HIS POSITION IN THE GOVERNMENT IS IN JEOPARDY. HE HAS HIS PROBLEMS, BUT THEY HAVE POTENTIAL REMEDIES AND THEY DO NOT SEEM TO BE OF SUFFICIENT MAGNITUDE TO BRING ABOUT HIS DOWNFALL PRIOR TO THE NATIONAL ELECTIONS OF 1976.  
HILLENBRAND

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## Message Attributes

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